16 March 2010

Mondo TV

Year End	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)
12/08	38.0	0.8	(18.0)	(2.65)	0.0	N/A
12/09	10.3	2.2	(1.0)	(0.24)	0.0	N/A
12/10e	19.0	8.0	1.7	0.39	0.0	19.1
12/11e	24.0	10.5	3.9	0.89	0.0	8.4

Note: * PBT and EPS are stated after charging amortisation of intangible assets. 2009 PBT and EPS exclude an exceptional €2.26m gain on disposal of MHE.

Investment summary: Dream factory

Mondo TV is now focused on its core strength, animation, having disposed of its loss-making home entertainment business during 2009. As well as selling new and library titles to broadcasters, Mondo has developed a number of TV cartoon series targeted specifically towards generating licensing revenues (eg toys). If any of these proves a 'hit' our estimates could be much too low. The company has disappointed in the past and needs to rebuild credibility, but 2009 results were encouraging and this could be a turning point.

A leading Italian animation business

Mondo TV has one of the largest European libraries of cartoons for television and an impressive list of partners and co-producers for new titles. However, the TV market is very tough and so Mondo TV has begun to develop products that can generate licensing and merchandise revenues on top of TV licence fees. The first of these, *Angel's Friends*, has made a promising start with €0.8m of licensing revenues in Q409 and *Puppy in My Pocket* has particular potential.

Moving into profit and with a sound financial position

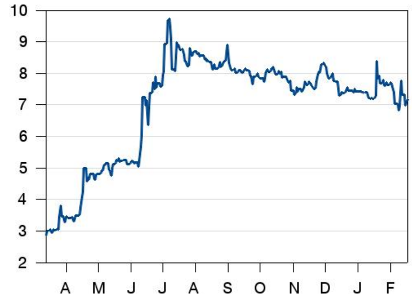
Mondo TV moved into profit in Q409 and the full year EBITDA of €2.16m was ahead of expectations. Management has published a business plan targeting 2010 revenue of €20.1m and EBITDA of €8.8m but the timing of deliveries means it is heavily skewed to Q4. Library revenues of €4.5-5.0m should cover group overheads so marginal revenues are highly profitable. Our estimates incorporate a contingency but forecasting is difficult. Post the disposal of MHE, Mondo TV's balance sheet is sound with gearing at 31% and new productions part financed in advance by co-producers.

Valuation: A fresh start

Over the past year Mondo TV has refocused the business to concentrate on animation, where it is long established and has a leading market position. Based on our estimates, the prospective EV/EBITDA multiple is 4.8x in 2010 and only 3.4x in 2011. On this basis the shares will become increasingly attractive as management rebuilds credibility, with Q410 trading a particularly important test.

Price	€7.45
Market Cap	€33m

Share price graph



Share details

Code	MTV.MI
Listing	Borsa Italiana STAR
Sector	Media
Shares in issue	4.4m

Price

52 week	High	Low
	€9.73	€2.85

Balance Sheet as at 31 December 2009

Debt/Equity (%)	31
NAV per share (€)	4.5
Net borrowings (€m)	5.9

Business

Mondo TV is a leading Italian producer and distributor of animated TV series and feature-length cartoons. It also licenses and merchandises its rights through home video, music, multimedia productions and publishing.

Valuation

	2009	2010e	2011e
P/E relative	N/A	168%	88%
P/CF	3.5	5.4	3.3
EV/Sales	3.8	2.0	1.5
EV/EBITDA	17.9	4.8	3.4

Revenues by geography

Italy	Europe	US	Other
47%	29%	2%	22%

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Mondo TV is a research client of Edison Investment Research Limited

Investment summary: Refocused on animation

Company description: Cartoon producer and distributor

Mondo TV is a leading Italian producer and distributor of animated TV series and feature films, mainly for television. It develops its own productions, co-produces with major broadcasters in Europe, distributes its large library and is increasingly active in licensing. During 2009 Mondo disposed of its stake in Mondo Home Entertainment (MHE), a DVD distribution business. Mondo TV Group is headquartered in Rome and has operations in Germany, France and Spain and sales representatives in Athens, Seoul, Mumbai and Sydney. It has 27 employees, with most of the labour intensive animation drawing subcontracted out to Far East low-cost providers. Mondo TV has been quoted on the Star segment of the Italian Stock Exchange since June 2000.

Valuation

Mondo TV originally listed at €64 and fell to a low of €2.7 in early 2009 due to the effect of the recession and losses in MHE. The shares rebounded to over €9 post the May 2009 announcement of the disposal and refocusing, but since then they have drifted. The free float is 33%, with the Corradi family still being majority shareholders with 62%. The EV/EBITDA multiple of 4.8x is below the industry average and our estimated valuation based on a DCF calculation is €12.4 a share. Forecasting is difficult but the business appears well positioned to benefit as the industry emerges from recession, and we expect Mondo TV to attract increasing investor interest.

Sensitivities

Mondo TV Group has more than 45 years' experience in animation and knows its markets well. However, there are a number of factors that could affect its ability to meet its ambitious growth targets. The recession could continue for longer than we expect and broadcaster budgets may remain under pressure. Animation is a creative industry and Mondo TV needs to retain staff and continue to produce attractive product and distribute it effectively. It operates in competitive markets with a number of much larger competitors. Sales of the old library are fairly predictable but margins are high so any shortfall to plan has a significant effect on profits, while sales of new titles are less easy to predict and licensing is a relatively new area for the group.

Financials

Mondo TV's 2009 gross sales from the continuing business more than doubled to €10.3m generating EBITDA of €2.16m. Its business plan projects EBITDA of €8.8m in 2010 and €11.9m in 2011 but we have allowed for some contingency, particularly since 2010 results are expected to be heavily skewed to Q4. Mondo TV has lined up excellent co-production and licensing partners so that if any of the titles is a real 'hit' the profits could be much better than we expect.

Exhibit 1: Summarised results and estimates for continuing operations

Note: Normalised PBT excludes a €2.26m gain on the disposal of MHE in 2009.

	2008 Reported	2008 Continuing	2009 Continuing	2010e	2011e	2012e
Gross revenue (value of production)	38.0	4.5	10.3	19.0	24.0	25.5
EBITDA	**0.8**	**(2.0)**	**2.2**	**8.0**	**10.5**	**12.0**
EBIT	(16.1)	(8.0)	(0.8)	2.0	4.0	5.2
PBT (normalised)	**(18.0)**	**(8.1)**	**(1.1)**	**1.7**	**3.9**	**5.3**

Source: Mondo TV Group accounts/Edison Investment Research

Company description: Cartoon producer and distributor

Cartoons have an enduring appeal for small children. A proliferation of channels – both television and new digital channels – means that demand should grow although pricing could remain under some pressure. Mondo TV is long established, well connected and has a large library that covers overheads and generates cash. A significant proportion of new production costs are covered by pre-sales, which reduces risk and financial commitment. Mondo TV's new product development is now focused on identifying characters that can generate significant licensing revenues in addition to TV fees, selling ideas to toy manufacturers as well as TV stations. A major 'hit' would produce substantial revenues and profits but the market is competitive.

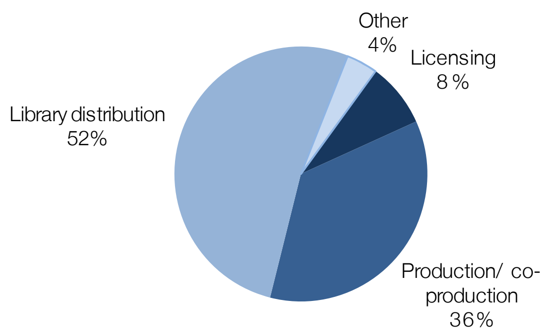
Overview

Mondo TV is the second largest Italian animation producer and in the top 20 worldwide (*Screen Digest*, October 2009). It has the third largest library of animated product in Europe with 1,600 animated TV episodes and 75 animated films. There are three main business areas:

- Production and co-production of animated series for television, typically with large European broadcaster partners such as RAI in Italy, TF1 and France 5 in France and ZDF in Germany.
- Licensing, a new area of focus for the group where executive productions are developed in conjunction with toy companies and character creators.
- Distribution of the library, where growth comes from adding new titles and expanding sales overseas. This accounted for 52% of 2009 sales (and a higher percentage of profits).

Mondo TV only begins production when it has orders and pre-sales in place to cover most of the production costs. This not only minimises production risk but also generates cash flows.

Exhibit 2: Analysis of 2009 gross revenues of €10.3m



Source: Mondo TV Group accounts/Edison Investment Research

Background

Mondo TV is long established, dating back to 1964 when Orlando Corradi, the executive chairman, began importing Japanese cartoons for distribution in Italy and Europe. In the late-1980s, Mondo TV began producing its own animated cartoon series for television, focusing from the start on classic children's characters and stories such as *The Jungle Book* and *Robin Hood*. In the late 1990s, Mondo TV expanded its merchandising activities with videos, books and sticker albums and in 1999 it produced its first feature length animation, *The Legend of Titanic*. Mondo TV listed on the New Market of the Borsa Italiana in June 2000, at the height of the dotcom boom, via an IPO priced at €64, valuing it at €240m (an EV/EBITDA multiple of about 30x).

Management

Mondo TV is extremely well known in the world of animation. Orlando Corradi, has over 45 years' experience in animation and runs the creative and production side of the group. His son, Matteo, is head of international sales and is increasingly taking over the day-to-day control and strategic affairs of the group. The CFO, Carlo Marchetti, joined Mondo TV in 2007 having previously been chief of accounting in publically listed Datamat SpA, an Italian software and service company.

Mondo Home Entertainment (MHE)

Mondo set up MHE in 2001, initially to handle its own DVD distribution. As MHE grew, it increasingly acquired third-party rights and diversified into film distribution with the acquisition of Moviemax. MHE was separately listed on the Italian Expandi market in 2005 (with Mondo TV retaining a controlling interest). However, it operates in competitive markets that became very difficult because of falling DVD prices and the recession. This was not helped by management's over ambitious sales targets, which resulted in a high level of product returns and working capital requirements. In 2008 MHE and its subsidiaries had revenues of €33.3m and incurred an EBIT loss of €8.1m, while net debt was €24.8m. In May 2009 Mondo TV announced that it would sell its stake in Mondo TV and the business was deconsolidated. The disposal was completed by the year end for €21.7m (€1.2m equity plus MHE's debt) plus the transfer of €1.9m of tax assets.

Management recognises that it made mistakes

Mondo's management recognises that it made mistakes in the post IPO period, particularly with MHE and its related diversifications. It has strengthened the management team and moved to more conservative accounting under IFRS. The business has been affected by the recession but we believe that the disposal of MHE in 2009 marked a key turning point for the group.

A refocused strategy

Mondo TV's business plan focuses on developing new animated TV series with good market visibility in partnership with key market players. As well as increasing the number of co-productions with leading broadcasters, Mondo TV is looking for new animation ideas to take to toy manufacturers and character owners to generate high margin licensing revenues. Mondo TV has also strengthened its international sales infrastructure and, longer term, sees opportunities to use its library for its own TV channels. We do not expect major acquisitions but with a number of competitors in financial difficulties, some libraries may become available.

Mondo TV's business

The Mondo TV Group consists of eight businesses. The main production and distribution businesses are the parent Mondo TV SpA, Mondo TV France and M.I.M Mondo IGEL Media in Germany (59% owned and listed on Hamburg's Start-Up Market). Mondo TV Spain was set up in 2008 to grow the group in both Spain and South America. Doro TV Merchandising distributes the original Japanese cartoon library while Mondo Distribution is involved in publishing, Mondo Licensing in merchandising and Mondo TV Kids was set up in 2008 to look at US opportunities.

The Dream Factory: Mondo TV's cartoon production

Mondo TV manages the entire production process, from the selection of a story to its completion. This encompasses pre-production (design and storyboards), production (traditional or computer aided animation and colourisation) and post-production (editing, music and effects, dubbing and mastering). The production element is highly labour intensive and Mondo TV, in common with most other animation studios, subcontracts this to low-cost suppliers. A significant proportion has for many years been handled by Sek, a leading Korean animation studio, but Mondo TV also uses other Far East and Indian suppliers. A certain amount of post-production is done in New York but Mondo TV also has its own laboratory in Rome for final finishing.

Co-productions – working with leading broadcasters

Mondo TV co-produces cartoons for many of the leading European broadcasters. It typically receives gross revenues of between €1.0-2.5m per series and owns 30-70% of worldwide rights in perpetuity. The co-production fee normally covers the bulk of the production cost, with stage payments also covering cash flows, so that margins on subsequent library sales are very high. It may be noted that since Q406 Mondo TV has accounted for co-productions on a 'net accounting' basis, only recognising the difference between the cost of production and the co-producer's contribution rather than booking the amount from both (see Financials).

Mondo TV has a long record of co-productions with RAI, the Italian state broadcaster, and current titles include a second season of *Farhat* (26 26-minute episodes), *Ants* (52 three-minute episodes) and a forthcoming version of *Treasure Island*. In Germany M.I.M Mondo IGEL Media is working with ZDF to produce *Laura Stern*.

Mondo TV France was set up in 2006 and is headed by Eve Baron, who has over 15 years' experience in the industry at Canal J (the first French dedicated kids channel) and France 3. Mondo TV France has two important co-productions due to premiere in France in 2010/11: *Lulu Vroumette* with France 5 and *Sherlock Yack* with TF1. The government provides attractive subsidies and tax breaks for French productions so that Mondo TV is in profit even before selling international rights.

Executive productions – significant licensing opportunities

In the past two years Mondo has changed its development focus to identify animation characters as much for their licensing potential as TV fees alone, to attract publishing and toy businesses to co-fund productions alongside broadcasters. *Puppy in My Pocket*, for example, will allow the toy company to launch a new range of toys based on characters introduced in the cartoon. This is a major step for the group and it already has three properties, each targeted to a specific group (girls, boys and pre-school) with an impressive list of partners. We expect at least two more properties to be announced during 2010.

The three properties are *Angel's Friends*, *Virus Attack* and *Puppy in My Pocket*. We describe each to illustrate the breadth of markets and partners that Mondo TV works with. They are also raising the profile of the group with, for example, prominent displays planned for this year's MIPTV in April. Financially, however, we do not believe that Mondo TV is overly dependent on these three titles given the breadth of its co-production and library sales.

Angel's Friends is based on a popular comic strip created by Simona Ferri and aimed at six- to 13-year-old girls. Mondo TV co-produced a series of 52 13-minute episodes with the publisher Play Entertainment and Mediaset, which was launched at MipCom in October 2008. It was first broadcast in autumn 2009 and achieved good audience shares on Mediaset's Italia1 (7% share) and in Spain (also about 7%, on Cartoon Network and Telecinco). Mondo TV has international TV rights and has already sold the programme to 50 countries, with broadcasts starting this spring. Starbright is the Italian licensing agency (Mondo TV receives a share of rights) and has signed over 40 licensees including Giochi Preziosi as European master toy licensee. The initial success is such that Mondo is now producing an animated 90-minute film (with the budget split between Mondo TV 48%, Play Entertainment 32% and Starbright 20%), which is due to premiere on Italian television in Christmas 2010. Mondo TV will be responsible for TV and home video rights worldwide outside Italy and Switzerland. A second TV series is due to air, probably on Italia1, at the beginning of 2011.

Virus Attack is targeted to boys and based on a popular range of kiosk card characters where five teenagers save the earth from virus aliens. The cartoon series (52 13-minute episodes) is being co-produced with Suk, an Italian 'laboratory of ideas for kids and teenagers'. It has been pre-sold to Time Warner's Turner Entertainment Networks (TEN) and will be broadcast on Cartoon Network, Boomerang and Bong channels in Italy from January 2011 with Turner handling licensing in Italy. Mondo TV is also in discussions with TEN for broadcast in other territories.

Puppy in My Pocket was announced by Mondo TV in January 2010 in co-production with MEG, the California-based creator of the property, and Giochi Preziosi, a leading toy manufacturer (with 2009 revenues of €865m). Puppy in My Pocket (Cuccioli Cerca Amici) was first introduced in the early 1990s and is a leading toy property, sold in 54 countries worldwide. The animated series will introduce new characters and Mondo TV will have a licensing interest in the success of these characters. The total production budget for the 52 13-minute episodes is US$7.3m (€5.5m) which will be financed by the three co-producers with delivery staged over 12 months from April 2010. The series is expected to air in Italy and Spain in autumn 2010 and elsewhere in 2011 and MEG and Giochi Preziosi will manage the worldwide licensing and toys programme.

Library distribution – new opportunities overseas

Library sales were €5.4m or 52% of gross revenues in 2009, most of which came from the 'old' library (about €4.3m), plus €0.7m of DVD sales and a small amount from *Angel's Friends*. Library sales normally decline slowly over time, with growth coming from the addition of new titles. However, cartoons have international appeal and over the past two years Mondo TV has significantly strengthened its international sales department. It now has commission-based sales representatives in Athens, Seoul, Mumbai and Sydney as well as its offices in Italy, France and Spain (also responsible for sales into South America). The library is currently being dubbed into Spanish, French, Arabic and Greek. The head of international sales, Micheline Azoury, has particular expertise in the Middle East and Africa and as well as selling its own library Mondo TV has put in place a number of new distribution deals, including Rai Trade, CAKE Entertainment, Your Family Entertainment and the Australian Children's Television Foundation.

A medium-term plan for Mondo TV is to further exploit its library titles by setting up its own advertiser funded children's TV channels. It has a small business in the US, Mondo TV Kids, which was set up in 2008 to investigate opportunities. So far market conditions have been unfavourable but Mondo TV has begun selling old library titles to a number of regional/local TV stations on a non-exclusive basis.

Animation: Enduring appeal in changing markets

Successful animations have long-lasting global appeal and can generate enormous spin-off revenues from toys, merchandise, magazines and so on. The theatrical market is increasingly dominated by the US majors with their enormous production budgets (after an unsuccessful foray Mondo TV is not active in this area). However, there is also strong demand for animated series to satisfy the increasing number of themed TV channels, as well as new channels such as the internet, video-on-demand and IPTV (internet protocol television).

The key issue is the price that broadcasters are able to afford. The recent recession has produced significant falls in advertising revenues and subscription incomes, although as economies recover this should reverse somewhat. However, there is a structural change in the market as the proliferation of channels in a digital age puts pressure on budgets. The nature of the production process means that animation is relatively expensive (costing around €200,000-250,000 per half hour to produce). This explains why the traditional animation business model – earning a living from TV fees – has become difficult, so that retaining some rights and tapping into the market for character licensing is very attractive. By way of illustration, Rainbow Studios' animated series, Winx, has reportedly generated over €1.5bn of global licensing income since its launch in 2004.

Key players in TV animation

According to Screen Digest's report, *The Global Animation Industry* (October 2009), Canada was the most prolific source of animation for television in 2008, producing 382 hours worth €181m, in part due to favourable government support schemes. The US produced 330 hours worth €256m (illustrating the higher budgets of US studios). In Europe, France is the leading producer (also with government aid) with about 255 hours in 2008, followed by the UK (190 hours), Italy (110 hours) and Spain (95 hours). The number of hours produced fell in all the main markets in 2008, except for Australia. Exhibit 3 shows the top 20 producers as estimated by Screen Digest.

Exhibit 3: Leading producers of animation for television

Note: Based on average annual output (hours), 2006-2008.

Rank		Hours	Rank		Hours
1	Nelvana (Corus Entertainment), Canada	67	11	Cartoon Network (Turner Ent), USA	23
2	Walt Disney, USA	50	12	BRB Int'l, Spain	22
3	Nickelodeon Animation, USA	47	13	Warner Bros TV Animation, USA	22
4	Cookie Jar, Canada	44	14	BeNeCe, Spain	20
5	Studio B (DHX Media), Canada	31	15	Fresh Animation, Canada	18
6	Decode (DHX Media) Canada	30	16	Rainbow Studios, Italy	17
7	Bardel Ent, Canada	28	17	Futurikon, France	17
8	20th Century Fox TV , USA	26	18	Entertainment Rights, UK	17
9	Moonscoop, France	25	19	Neptuno Films, Spain	17
10	Tele Images/ Marathon, France	23	20	Mondo TV, Italy	16

Source: *The Global Animation Industry*, Screen Digest, October 2009

In addition to these producers, there are a large number of companies involved in children's entertainment in Europe, many of whom have large libraries and compete with Mondo TV (which has the third largest library with 6,000 half-hours). These include Constantin Ag, which now owns the Em.TV library of 22,000 half-hours, Jetix (part of Fox Kids Europe and now owned by Disney) with 6,600 half-hours, Entertainment Rights with 1,800 half-hours and Hit Entertainment (now owned by Apax) with 1,500 half-hours. However, the recession has caused financial difficulties for a number of competitors, such as TV Loonland Ag, BKN International and Carrere Group, which should benefit Mondo TV (eg a number of library assets may become available).

Sensitivities

Mondo TV's risk profile has significantly reduced since it exited the home entertainment and theatrical animation sectors. It has more than 45 years' experience in animation and knows its markets well. Nevertheless we would identify a number of factors, both external and internal, which could affect our estimates both positively and negatively.

- The recession may persist for longer than we expect, affecting broadcasters' incomes and hence TV programme fees. Furthermore, structural changes in the market may affect programme budgets by more than we expect due to audience fragmentation, possibly exacerbated by competition for viewing time from other types of entertainment.
- Sales of the old library are fairly predictable but margins are high so that any shortfall to plan has a significant effect on profits. Sales of new titles are harder to predict although a significant proportion is pre-sold before production commences. The character licensing market is to some extent 'hit' driven, which makes forecasting licensing revenues particularly difficult. However, the fact that its animations are based on existing successful characters minimises the downside and profits could be much better than we expect.
- The market is competitive, with a number of much bigger well capitalised players including the US studios, although Mondo TV could benefit from the financial difficulties of other smaller players.
- As a creative business Mondo TV needs to attract and retain good talent and will need to manage strong growth if its business plan targets are to be successfully achieved.
- Mondo TV operates in international markets with and has some exposure to currency movements. It also has some credit risk, particularly given the length of the production process, although most of the co-producers it deals with are very large companies.

Valuation

We normally value entertainment companies on an EV/EBITDA basis and estimate that the global entertainment sector is trading on a current EV/EBITDA of 7.7x and a P/E of 13.3x (although this covers a diverse range of companies and the spread of valuations is wide). Mondo TV is only just moving back into profit and expects strong growth over the next three years. On our estimates (which are more conservative than the business plan) Mondo TV's EV/EBITDA falls from 17.9x in 2009 to 4.8x in 2010 and 3.4x in 2011. On this basis the shares will become increasingly attractive as management rebuilds credibility, with Q410 trading a particularly important test.

Many of Mondo TV's European peer group are in financial difficulty (eg BKN International and TV Loonland), while others are no longer quoted, including Hit Entertainment, Constantin and Chorion. By way of illustration, in Exhibit 4 we show Mondo TV's rating relative to a number of the leading North American producers of animation and content, although they are not directly comparable.

Exhibit 4: Peer group comparison

Note: Exchange rates used: €1=US$1.36, C$1.4.

Company	Price	Mkt Cap (€m)	Pre-tax (€m)	EPS (€)	EV/EBITDA (x)	P/E (x)
Mondo TV	€7.45	33	1.7	0.39	4.8	19.1
Corus Entertainment (NYSE: CJR)	US$18.79	1107	160.0	1.21	8.1	11.1
DHX Media (TSX: DHX)	C$1.06	36	2.1	0.04	6.5	21.2
Lions Gate Inc (NYSE: LGF)	US$5.67	490	(30.0)	0.00	16.1	N/A
Global entertainment average					7.7	13.3

Source: Thomson consensus estimates/Edison Investment Research

We also performed a DCF calculation using an 11% WACC, and a 2% terminal growth rate. We arrive at an equity value of €54.5m or €12.4 a share. This implies a 66% upside to the current price, although the range of possible outcomes is very wide until the upward trend in group profitability becomes clearer and more consistent.

Financials

A return to profit in Q409

Mondo TV's 2009 results were slightly better than it predicted in August 2009. Gross revenues from the continuing business (including co-production capitalisations) more than doubled to €10.28m (2008: €4.52m). Sales growth came both from the old library and *Angel's Friends,* while Q4 also benefited from €0.8m of licensing revenues from *Angel's Friends*. With fixed costs well under control the doubling of revenues flowed through to profit to produce EBITDA of €2.16m versus a loss of €1.98m in 2008. Q4 EBIT was a positive €0.4m although for the full year there was an EBIT loss of €0.80m, much better than the loss of €8.0m in continuing operations in 2008 (this included €2.6m of library impairments and a €1.06m bad debt provision). Net financial income in 2009 included a €2.26m gain on the disposal of MHE which we have treated as exceptional; including this gain reported PBT was €1.20m. Available tax losses mean that Mondo TV is not expected to pay cash taxes in the foreseeable future and we have adjusted our normalised EPS calculations to reflect this.

Exhibit 5: Recent results and estimates

Note: Normalised PBT excludes a €2.26m gain on the disposal of MHE in 2009.

	2008 Reported	2008 Continuing	2009 Continuing	2010e	2011e	2012e
Business plan - Gross revenue				20.1	25.2	26.7
Business plan - EBITDA				8.8	11.9	13.6
Edison estimates						
Gross revenue (value of production)	38.00	4.52	10.28	19.00	24.00	25.50
- including capitalisation of co-productions		*0.14*	*1.25*	*3.80*	*4.00*	*4.00*
EBITDA	0.77	(1.98)	2.16	8.00	10.50	12.00
EBITDA margin	2.0%	(43.8%)	21.1%	42.1%	43.8%	47.1%
EBIT	(16.11)	(7.96)	(0.80)	2.00	4.00	5.20
Net interest	(1.86)	(0.11)	(0.26)	(0.30)	(0.10)	0.05
PBT (normalised)	(17.96)	(8.07)	(1.06)	1.70	3.90	5.25

Source: Mondo TV Group/Edison Investment Research

Capitalisation and amortisation

Mondo TV prepares its accounts according to IFRS (with PricewaterhouseCoopers as auditors). In common with other studios it capitalises investment in new titles and amortises them over 10 years, on the basis of the individual-film-forecast-computation method, from the date the title is completed and may be commercially exploited. Since 2006 it has applied net accounting principles for co-production titles, booking only the difference between the cost of the productions and the contribution from the co-producer instead of booking the amount from both. In 2009 €1.2m was capitalised for the French co-productions, a figure that we expect to increase to €3.8m in 2010. We have used gross revenue including capitalisations in our analysis as we believe this is a better measure of the group's progress.

Estimates for 2010 and beyond

Management has published a detailed P&L business plan to 2012 which projects gross revenues of €20.1m in 2010 and EBITDA of €8.8m, rising to €26.7m and €13.6m respectively by 2012. The PBT is forecast to grow rapidly, from €1.9m in 2010 to €6.3m in 2012. Our estimates are more cautious, to allow a contingency. We expect 2010 gross revenues to increase by 85% in 2010 to €19.0m to give EBITDA of €8.0m, a margin of 42%. The timing of deliveries of the new titles is skewed to Q4, which will also be the most important quarter for licensing. As a result, just over 50% of revenues and 85% of 2010 EBITDA is expected to arise in Q4 (versus 30% and 60% respectively in 2009). At the EBIT level we expect a further loss (of about €0.7m) in the first six months of the year, with almost all the profit arising in Q4.

2010 is a key year to begin to see whether the new licensed properties can be successful. If so, we would expect second series (as already with *Angel's Friends*) and even third and fourth series. There could also be a dramatic potential uplift in licensing revenues, which are high margin and have a considerable effect on both profits and cash flows. Exhibit 6 shows the extent to which management has increased its estimates for the potential from licensing over the next 10 years.

Exhibit 6: Highlights of the 10-year business plan

€'000	2008 (2009-18)	2009 (2010-19)
Old library licences	39,822	39,116
New library licences	71,220	44,650
Executive productions and co-productions	39,080	40,890
Licensing and merchandising	13,777	51,400
Other operating revenues	2,500	2,500
Revenues	166,399	178,556
EBITDA	68,681	85,227

Source: Mondo TV Group annual reports 2008, 2009

A sound balance sheet

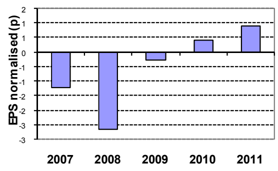
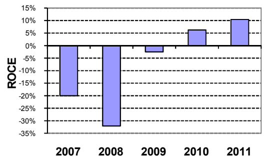
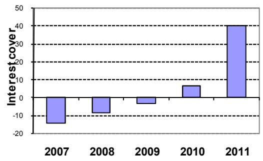
Mondo TV's balance sheet was transformed by the disposal of MHE and debt fell from €27.6m at December 2008 to €5.9m at December 2009. Most of Mondo TV's new productions are co-financed with partners who provide cash stage payments, which minimises cash requirements. On the other hand, the effect of the recession has meant that TV companies have being paying more slowly. Furthermore, in 2009 the weighting of EBITDA to Q4 means that cash receivables are only likely to come in during 2011. Thus we currently expect Mondo TV to end 2010 with roughly unchanged net debt at about €6m, which should then decline strongly in 2011. Leverage ratios appear very comfortable with 2010 gearing estimated at 28%, net debt/EBITDA of 0.75x and interest cover of 6.7x.

Exhibit 7: Financials

Note: 2008 results are as reported. For a breakdown of continued/discontinued operations, see Exhibit 5. Gross operating revenue includes capitalised co-production revenues (€1.25m in 2009). Normalised PBT and EPS are calculated after amortisation of intangible assets. EPS is adjusted to reflect the fact that cash taxes are zero due to available losses.

€'000s	2006	2007	2008	2009	2010e	2011e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Gross revenue	34,965	44,698	38,003	10,284	19,000	24,000
Cost of Sales	(10,933)	(7,457)	(7,230)	(208)	(1,900)	(2,400)
Gross Profit	24,032	37,241	30,773	10,076	17,100	21,600
EBITDA	3,527	6,955	772	2,164	8,000	10,500
Amortisation	(6,703)	(14,387)	(15,109)	(2,634)	(5,700)	(6,200)
Depreciation	(461)	(357)	(256)	(152)	(150)	(150)
Bad debt provisions	(604)	(2,444)	(1,512)	(182)	(150)	(150)
Operating Profit (EBIT)	(4,241)	(10,233)	(16,105)	(804)	2,000	4,000
Net Interest	(436)	(734)	(1,857)	(256)	(300)	(100)
Gains on disposal of MHE	0	0	0	2,261	0	0
Profit Before Tax (norm)	(4,677)	(10,967)	(17,962)	(1,060)	1,700	3,900
Profit Before Tax (FRS 3)	(4,677)	(10,967)	(17,962)	1,201	1,700	3,900
Tax	4,161	2,309	2,613	(90)	(250)	(975)
Minority interest	800	3,338	3,686	294	200	150
Loss from discontinued operations	0	0	0	(389)	0	0
Profit After Tax (norm)	284	(5,320)	(11,663)	(1,060)	1,700	3,900
Profit After Tax (FRS 3)	284	(5,320)	(11,663)	1,016	1,650	3,075
Average Number of Shares Outstanding (m)	4.4	4.4	4.4	4.4	4.4	4.4
EPS - normalised (€)	0.06	(1.21)	(2.65)	(0.24)	0.39	0.89
EPS - FRS 3 (€)	0.06	(1.21)	(2.65)	0.23	0.38	0.70
Dividend per share (€)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	68.7	83.3	81.0	98.0	90.0	90.0
EBITDA Margin (%)	10.1	15.6	2.0	21.0	42.1	43.8
Operating Margin (before GW and except.) (%)	(12.1)	(22.9)	(42.4)	(7.8)	10.5	16.7
BALANCE SHEET						
Fixed Assets	56,262	55,610	50,176	27,537	28,050	30,150
Intangible Assets	42,445	41,813	33,651	14,108	15,000	18,000
Tangible Assets	802	516	625	267	250	250
Deferred Tax / Other	13,015	13,281	15,900	13,162	12,800	11,900
Current Assets	30,373	37,767	35,759	11,319	12,900	13,900
Stocks	1,517	3,353	3,129	0	0	0
Debtors	22,551	29,815	29,969	10,183	12,000	13,000
Cash and liquid assets	3,158	3,479	2,214	720	500	500
Other	3,147	1,120	447	416	400	400
Current Liabilities	(36,287)	(53,628)	(63,973)	(17,852)	(15,000)	(15,500)
Creditors	(25,885)	(35,883)	(34,397)	(12,619)	(13,000)	(14,500)
Short term borrowings	(10,402)	(17,745)	(29,576)	(5,233)	(2,000)	(1,000)
Long Term Liabilities	(10,371)	(4,704)	(1,726)	(2,055)	(4,500)	(2,000)
Long term borrowings	(4,524)	(1,730)	(223)	(1,404)	(4,500)	(2,000)
Other long term liabilities	(5,847)	(2,974)	(1,503)	(651)	0	0
Net Assets	39,977	35,045	20,236	18,949	21,450	26,550
CASH FLOW						
Operating Cash Flow	(2,492)	5,325	(4,386)	6,585	5,317	9,500
Net Interest	(436)	(902)	(1,551)	(183)	(300)	(100)
Tax	0	0	0	0	0	0
Investment in intangible assets	(13,046)	(13,018)	(6,947)	(4,807)	(5,000)	(5,000)
Investment in property, plant and equipment	(310)	(71)	(365)	(206)	(100)	(100)
Acquisitions/disposals	0	0	0	21,716	0	0
Financing	0	0	0	0	0	0
Dividends	0	0	0	0	0	0
Other	(4,666)	4,370	1,660	(1,437)	0	(800)
Net Cash Flow	(20,950)	(4,296)	(11,589)	21,668	(83)	3,500
Opening net debt/(cash)	(9,248)	11,702	15,996	27,585	5,917	6,000
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	0	0	0
Closing net debt/(cash)	11,702	15,998	27,585	5,917	6,000	2,500

Source: Mondo TV Group accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	○
			Pensions	○
			Currency	◖
			Stock overhang	◖
			Interest rates	◖
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 07-11e	N/A	ROCE 10e	6.4	Gearing 10e	28	Address:	
EPS CAGR 09-11e	N/A	Avg ROCE 07-11e	N/A	Interest cover 10e	6.7	Via Brenta, 11 00198 Roma, Italy	
EBITDA CAGR 07-11e	10.8	ROE 10e	7.9	CA/CL 10e	0.9		
EBITDA CAGR 09-11e	120	Gross margin 10e	90	Stock turn 10e	0.0	Tel	+39 06 8632 3293
Sales CAGR 07-11e	N/A	Operating margin 10e	10.5	Debtor days 10e	230	Fax	+39 06 86209 836
Sales CAGR 09-11e	52.8	Gr mgn / Op mgn 10e	8.6	Creditor days 10e	249	www.mondeotv.it	

Principal shareholders	%
Orlando Corradi	62
Symphonia SICAV S.p.A	5
Free float	33

Forthcoming announcements/catalysts	Date *
STAR investor presentation	17 March
Q1 results	13 May *
*Note: * = estimated*	

Management team
Chairman: Orlando Corradi
Orlando Corradi founded the Mondo TV businesses in 1964, initially importing Japanese cartoons then making its own animations. Orlando remains responsible for production and creative development. He received the honour of 'Commendatore della Repubblica' from the Italian president in 2006.
Director and Head of Sales: Matteo Corradi
Matteo Corradi is Orlando Corradi's son and has worked at Mondo TV since completing his studies in 1996, latterly as head of international sales. He is increasingly taking over day-to-day management of the business and strategic affairs and is also responsible for investor relations.
CFO: Carlo Marchetti
Carlo Marchetti joined Mondo TV in 2007. For 10 years before that he was chief accountant at Datamat SpA, a listed Italian software and services group. Carlo is a chartered certified accountant and worked at Ernst & Young from 1994-97.